

LLOYDS
BANKING
GROUP



GOLDMAN SACHS EUROPEAN FINANCIALS CONFERENCE

Madrid

12 June 2014

George Culmer, Chief Financial Officer

Alison Brittain, Group Director, Retail



OUR BUSINESS MODEL

Q1 2014 PERFORMANCE

RETAIL BANKING UPDATE

SUMMARY

STRATEGY

Best bank for customers

LLOYDS
BANKING
GROUP



LLOYDS BANK



**SIMPLE, LOW RISK, UK FOCUSED RETAIL
AND COMMERCIAL BANK**

ICONIC AND DISTINCTIVE BRANDS

MULTI CHANNEL DISTRIBUTION

HALIFAX



EFFICIENT SYSTEMS AND PROCESSES

HIGH QUALITY, COMMITTED COLLEAGUES

BANK OF SCOTLAND



SCOTTISH WIDOWS



HELPING BRITAIN PROSPER THROUGH OUR UNIQUE COMPETITIVE POSITION



2011 STRATEGIC OBJECTIVES

OBJECTIVES	
RESHAPE our business portfolio to fit our assets, capabilities and risk appetite	STRENGTHEN our balance sheet and liquidity position
INVEST to grow our core customer businesses	SIMPLIFY the Group to improve agility, service and efficiency

EFFICIENT, LOW RISK BUSINESS MODEL

LEADING COST POSITION
LOWER RISK APPETITE
LOWER FINANCIAL LEVERAGE
UNIQUE COMPETITIVE POSITION
LOWER COST OF EQUITY
LOWER COST OF DEBT

CONFIDENT OF DELIVERING STRONG AND SUSTAINABLE ECONOMIC RETURNS



ASSET REDUCTION

- Over £200bn of non-core asset reduction to end 2013
- Achieved EU commitment target 2 years ahead of plan

INTERNATIONAL PRESENCE

- International presence significantly reduced
- Exited or announced exit from 21 countries, target of 10 or fewer in 2014 already achieved

COST SAVINGS

- Strategic Review cost target of £10bn delivered 2 years ahead of plan
- 2014 FY costs of £9bn + TSB

FUNDING

- Wholesale funding requirement reduced by more than £150bn since H1 2011
- Loan to deposit ratio now 111% from 135% at the end of 2011

CAPITAL RATIOS

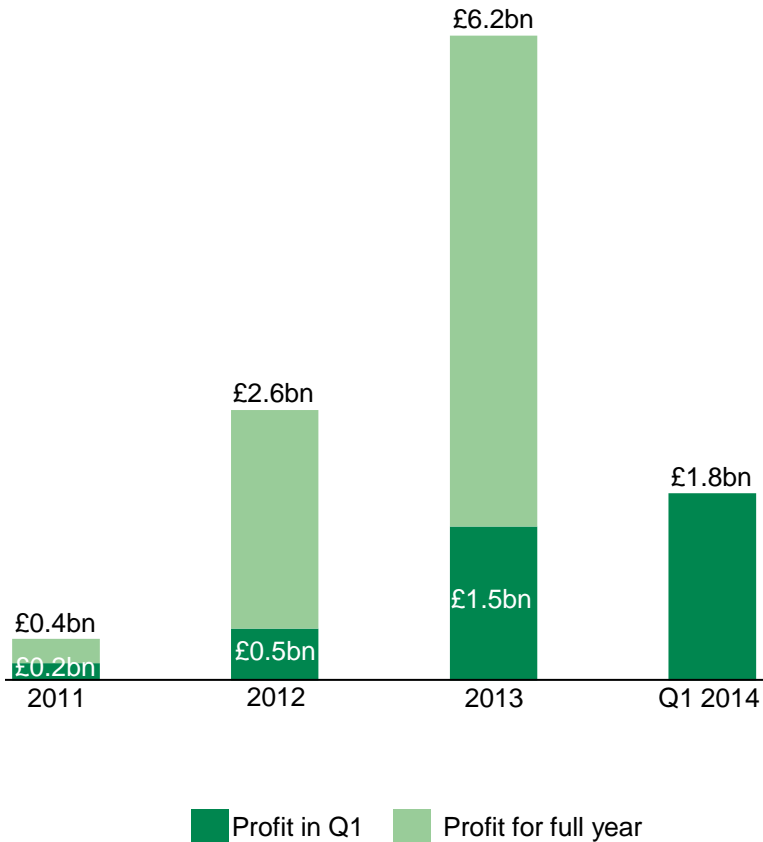
- Significant increase to capital ratios, ahead of market expectations
- Pro forma fully loaded common equity tier 1 ratio 10.7% Q1 2014

STRATEGY

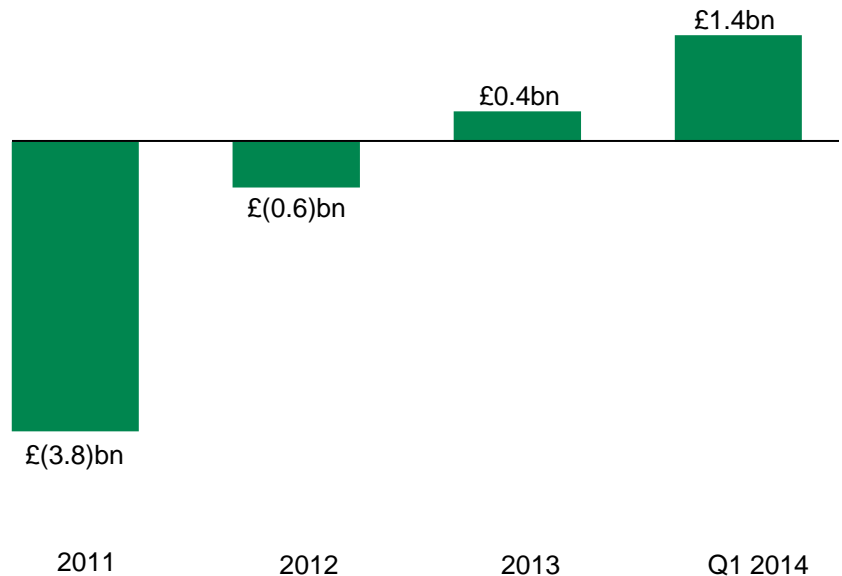
A strong improvement to underlying and statutory profit



UNDERLYING PROFIT



STATUTORY PROFIT BEFORE TAX





OUR BUSINESS MODEL

Q1 2014 PERFORMANCE

RETAIL BANKING UPDATE

SUMMARY



- Continue to successfully execute on our strategy
- Underlying profit increased 22% to £1.8bn and statutory PBT of £1.4bn
- Lending and deposit growth in our key customer segments
- Customers at the heart of our business; launched Helping Britain Prosper plan
- Simplification driving further reduction in our market-leading cost:income ratio
- Capital position further strengthened and AT1 requirement now satisfied
- UK Government stake now reduced to 24.9%
- Supporting and benefiting from the UK economic recovery

FINANCIAL PERFORMANCE

Profit and returns substantially improved and balance sheet strengthened



UNDERLYING PROFIT

£1.8bn
22%



- Group underlying profit increased to £1.8bn
 - Net interest margin up 36bp to 2.32%
 - Simplification delivering further efficiencies; costs down 5%
 - Substantial 57% reduction in impairment charge

RETURN ON RWAs

2.71%
75bp



- Statutory profit before tax of £1.4bn

FL CET1 RATIO⁽¹⁾

10.7%
0.4pp



- Strong loan growth in key customer segments
- Run-off portfolio reduced by £3.6bn to £29.7bn

FL LEVERAGE RATIO⁽²⁾

4.5%
0.7pp



- Deposits increased £5.3bn; loan to deposit ratio improved to 111%
- Fully loaded CET1 and leverage positions improved from underlying profit and management actions

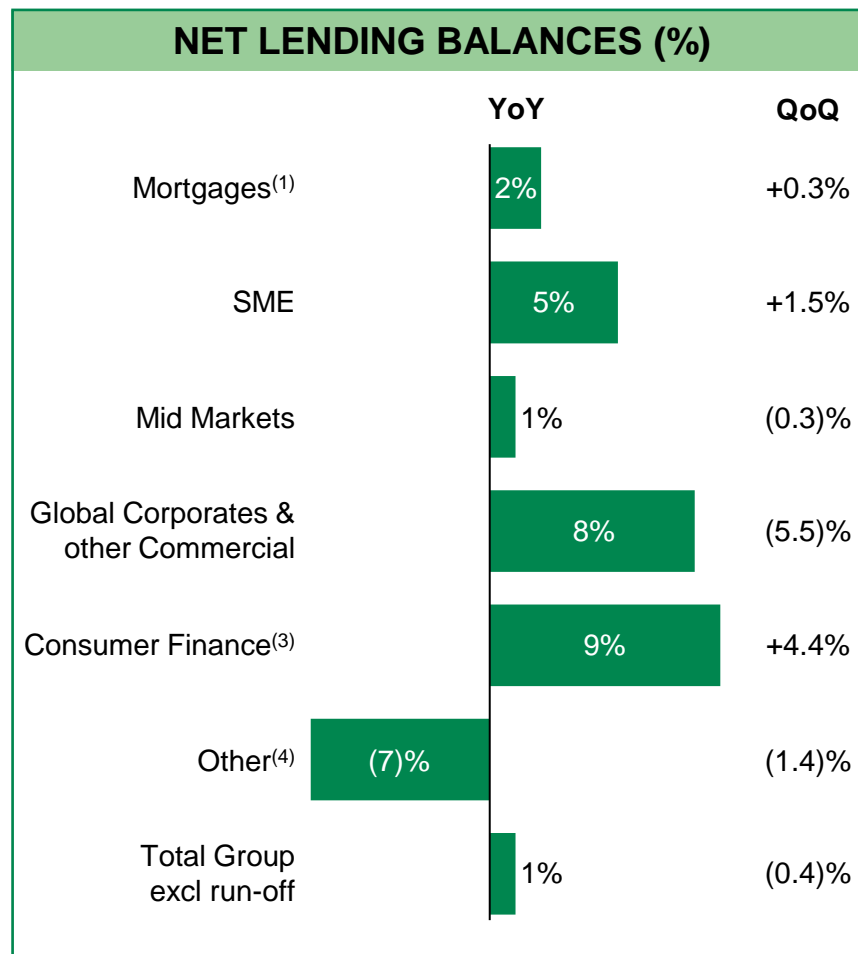
⁽¹⁾ Pro forma. ⁽²⁾ Pro forma Basel III leverage ratio estimated in accordance with Jan 2014 revised Basel III leverage ratio framework.

SUPPORTING OUR CUSTOMERS AND THE UK ECONOMY

Continued loan growth in key customer segments



- **Stronger UK economic growth**
 - Improving housing market
 - Unemployment falling
 - Strengthening consumer and business confidence
 - Disposable income growing
- **Mortgages⁽¹⁾ continue to grow, in line with stronger market**
 - Gross mortgage lending £9.8bn
 - Lent £2.6bn to more than 20,000 first-time buyers
- **Continued strong performance in SME lending**
 - SME lending up 5%
 - Supported c.29,000 start-ups in Q1
- **Mid Markets is gaining share in a contracting market⁽²⁾**
- **Global Corporates impacted by loan repayments in first quarter**
- **Substantial growth in UK Asset Finance**



LOAN GROWTH SUPPORTING UK ECONOMIC RECOVERY

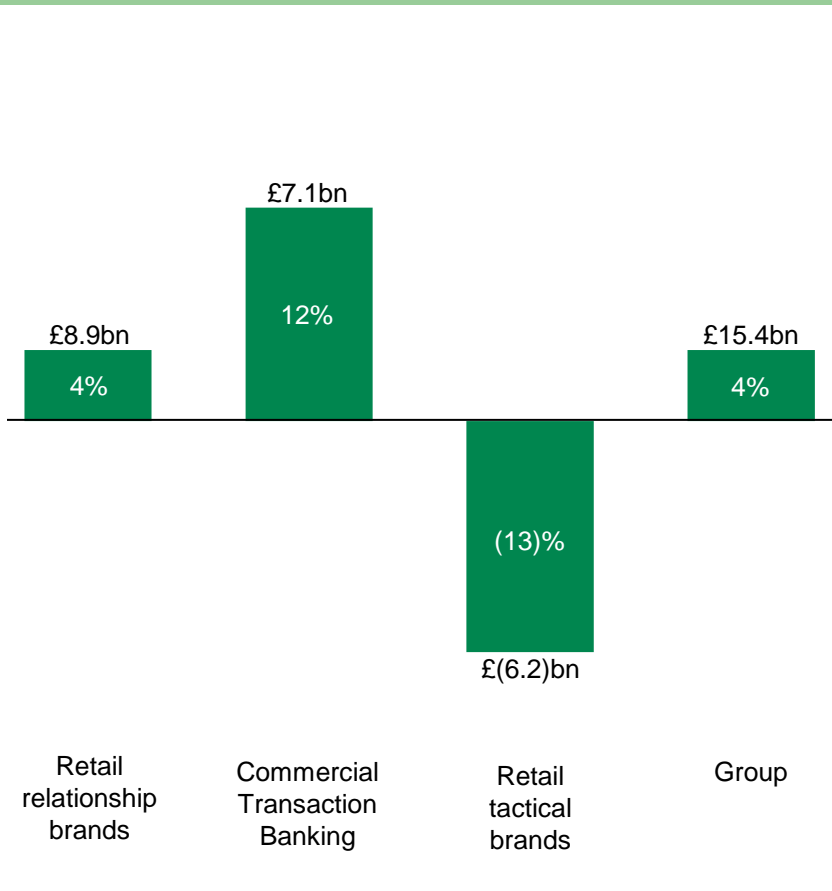
⁽¹⁾ Excludes specialist book and Intelligent Finance. ⁽²⁾ BoE Market Data – turnover >£25m. ⁽³⁾ UK Consumer Finance growth. ⁽⁴⁾ Other includes specialist book, Intelligent Finance, Dutch mortgages and other Retail lending.

GOOD DEPOSIT GROWTH

Relationship strategy continues to deliver



DEPOSIT GROWTH (YoY)

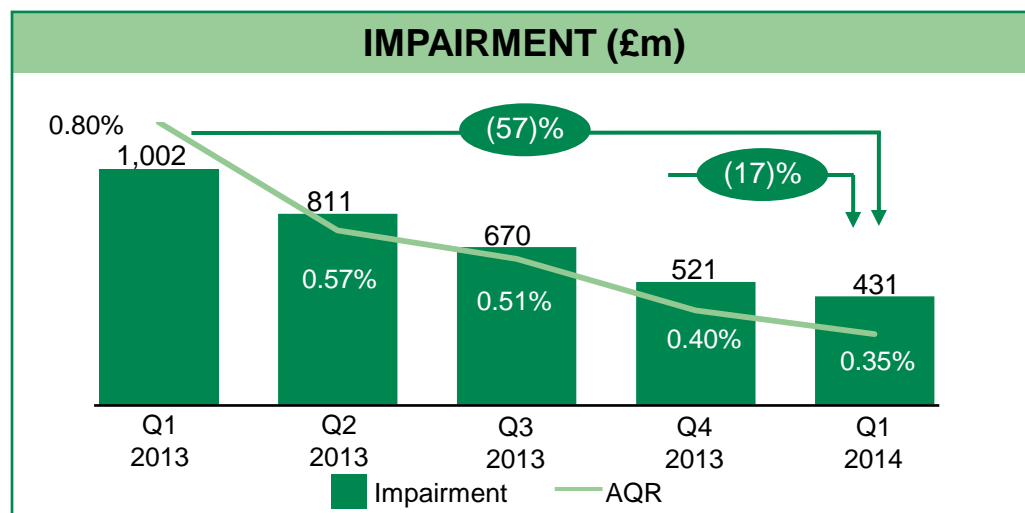
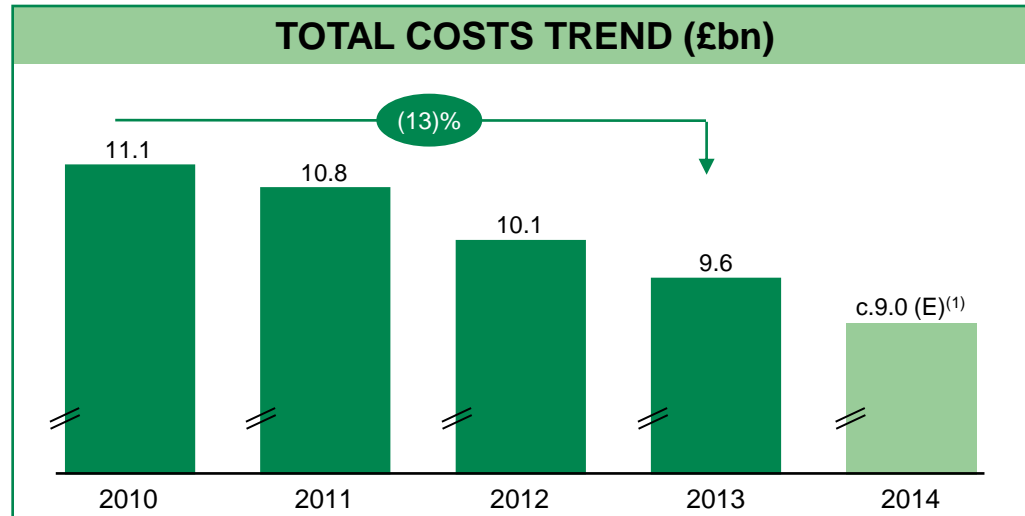


- Deposit growth reflects strength of our customer franchise
- Retail relationship brands driving deposit growth in a low base rate environment
- Growth in high quality Transaction Banking deposits
- Tactical brands de-emphasised, down 13% in Retail
- Greater flexibility in deposit gathering benefiting Group cost of funds

DELIVERING THROUGH MULTI-BRAND STRATEGY

FINANCIAL PERFORMANCE

Maintaining the reducing cost trend



- 5% cost reduction
- Simplification run-rate savings of £1.6bn; continue to target exit run-rate of £2bn by end 2014
- Continue to expect 2014 costs of around £9bn (excluding TSB costs)
- Impairment charge down 57% with reductions in all divisions
- Impairment driven by prudent credit risk appetite, provision releases and reductions in run-off portfolio
- Impaired loans as a percentage of total advances of 5.7% (Dec 2013: 6.3%)
- Coverage ratio of 51.1% (Dec 2013: 50.1%)

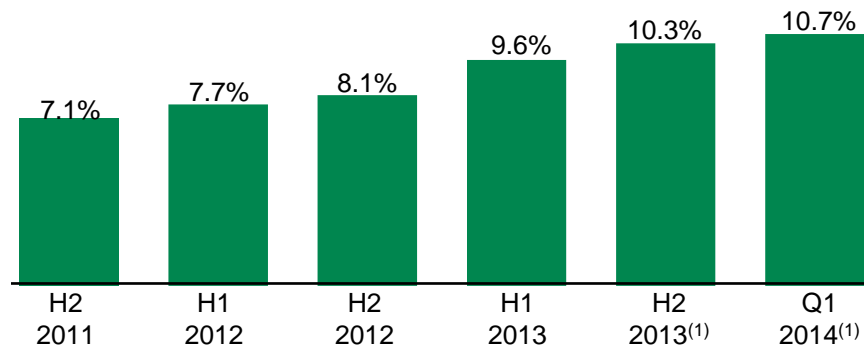
Total costs 2010 – 2012 restated for impacts of IAS 19R. ⁽¹⁾ Excluding TSB costs.

FURTHER STRENGTHENING THE BALANCE SHEET

Common equity tier 1 and leverage positions further strengthened

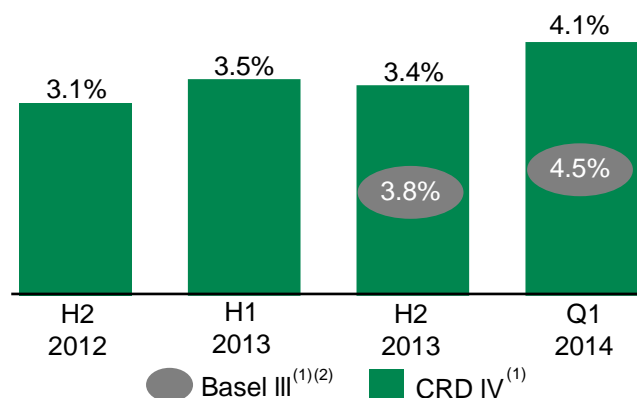


FULLY LOADED COMMON EQUITY TIER 1 RATIO



- Stronger capital position principally driven by underlying profit
 - £400m insurance dividend paid to Group in Q1
 - Pro forma ECN exchange effect partly offset by benefit of pension scheme change

FULLY LOADED LEVERAGE RATIO



- Estimated pro forma fully loaded CET1 ratio improved to 10.7%
- Pro forma leverage ratio substantially improved through AT1 issuance

A STRONGLY CAPITAL GENERATIVE BUSINESS

⁽¹⁾ Pro forma. ⁽²⁾ Estimated in accordance with January 2014 revised Basel III leverage ratio framework.



OUR BUSINESS MODEL

Q1 2014 PERFORMANCE

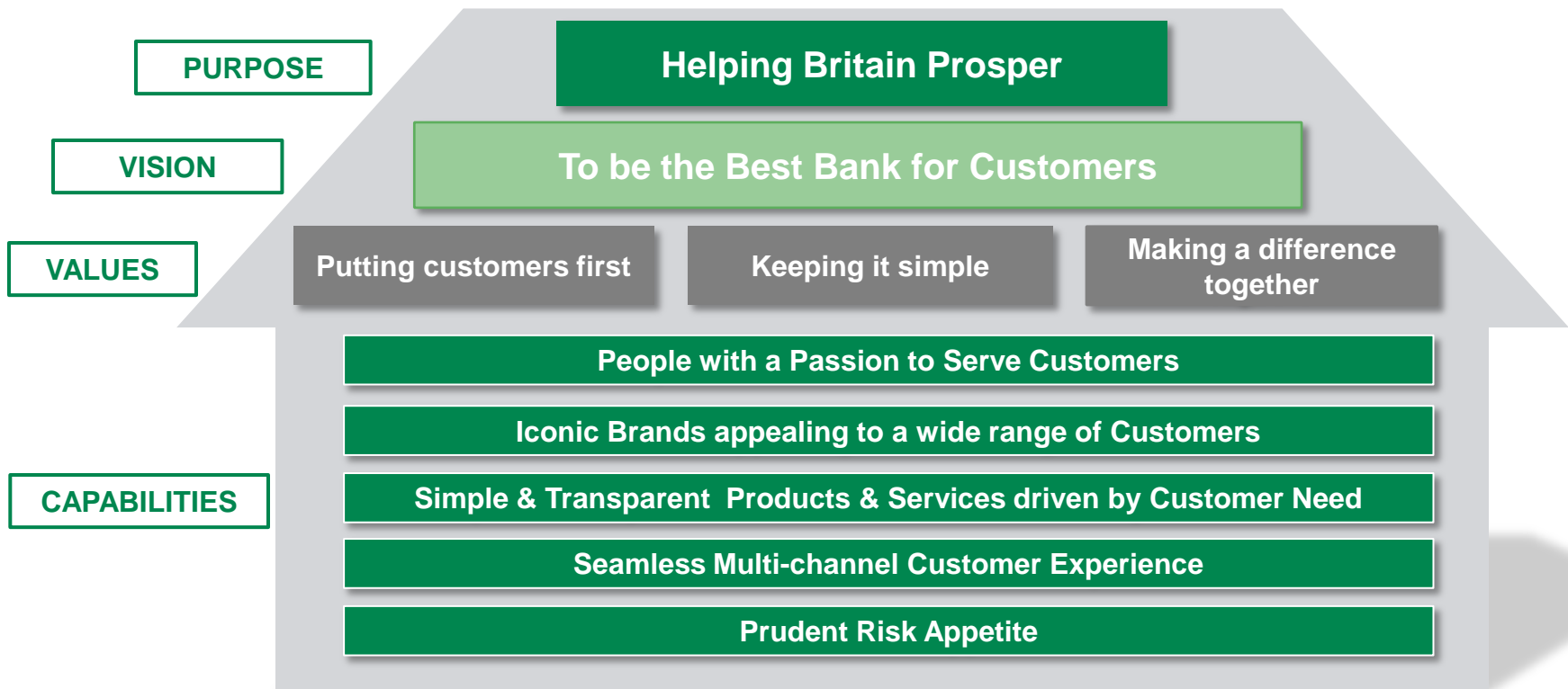
RETAIL BANKING UPDATE

SUMMARY

OUR RETAIL STRATEGY

Aligned with our Group Strategy to be the Best Bank for Customers

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OUR MULTI-BRAND STRATEGY

Providing a comprehensive range of choices for our customers

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LLOYDS BANK



Established Leader

The bank that goes further to better serve its customers

Leadership
Dedication
Integrity

 BANK OF SCOTLAND

Established Leader in Scotland

The bank that goes further to better serve Scotland

Leadership
Dedication
Integrity

HALIFAX

No. 1 Challenger

The bank that gives you extra when it matters the most

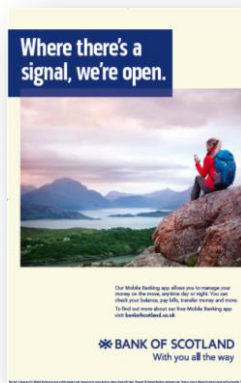
Rewarding
Straightforward
Enthusiastic

T S B

Local Champion

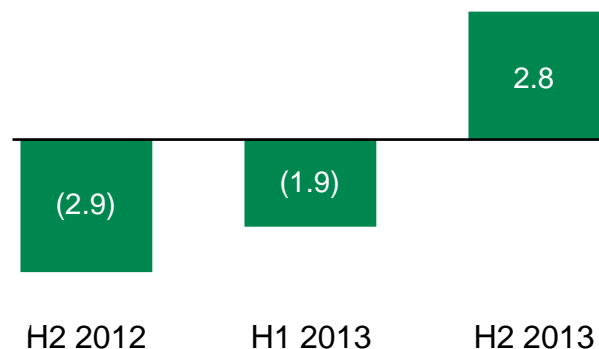
A high street bank that creates value for local people and local economies

Balanced
Simple
Local



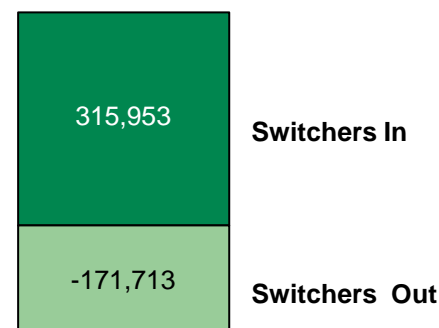


CUSTOMER LENDING



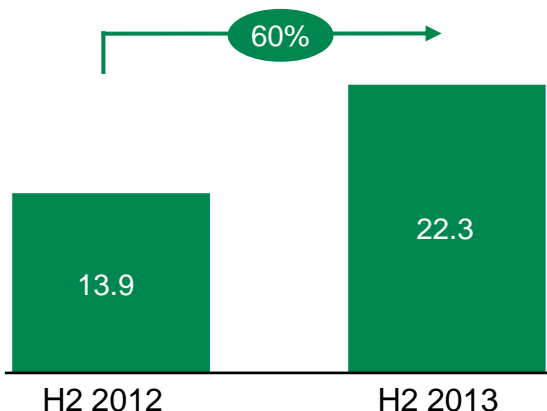
CURRENT ACCOUNT SWITCHERS

Total External Switchers (2013)

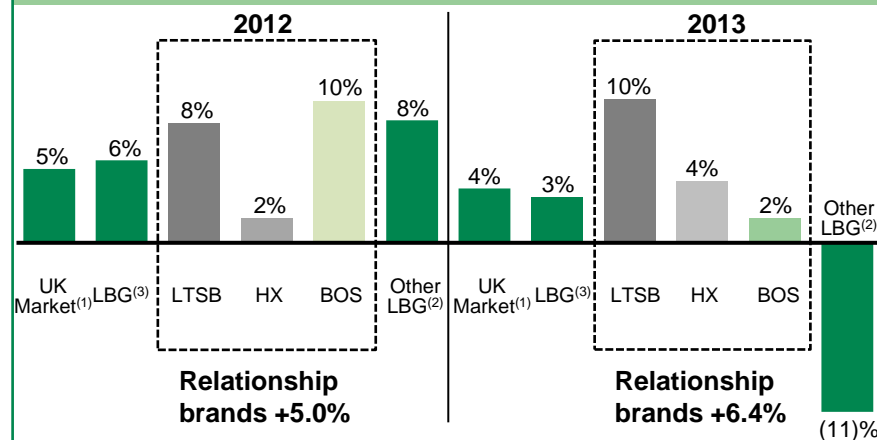


Net growth of
144,240 Current
Account Switchers
in 2013

GROSS NEW MORTGAGE LENDING



RETAIL DEPOSITS



MULTI-CHANNEL CAPABILITY

Servicing our customers how and when they want

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COMMUNITY BANKS



INTERNET BANKING



TELEPHONE BANKING



MOBILE BANKING

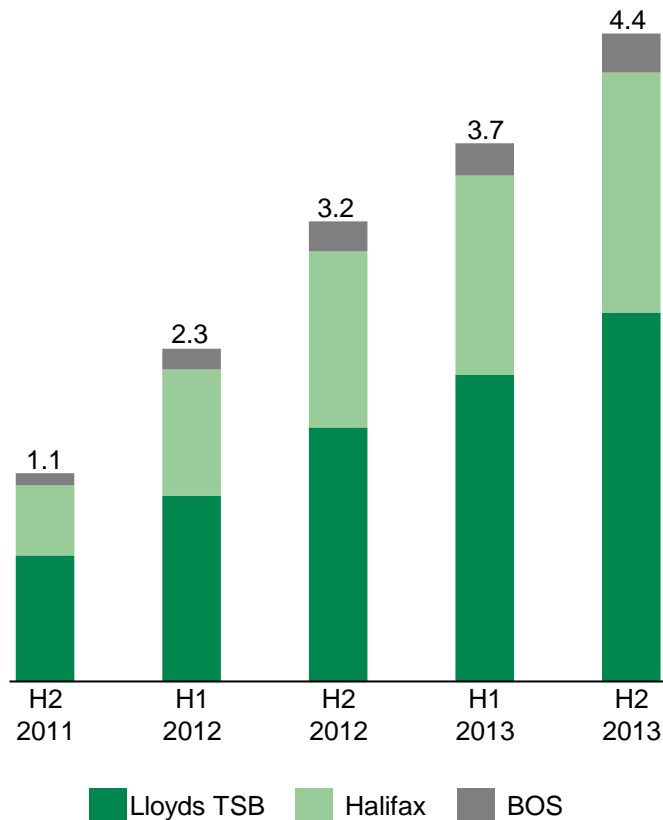


INTERNET AND MOBILE BANKING GROWTH

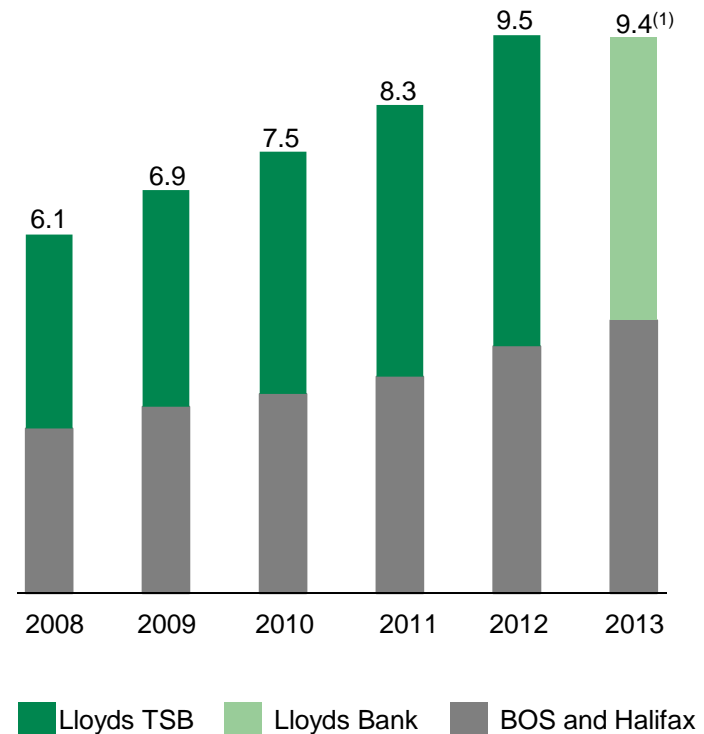
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MOBILE USER GROWTH (ACTIVE USERS (m))



DIGITAL GROWTH (ACTIVE USERS (m))



⁽¹⁾ Excluding TSB.

MULTI-SEGMENT CAPABILITY

Recognising the different needs of our customer segments

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MASS AFFLUENT

EVERYDAY OFFERS
BRIGHTEN
UP MY DAY

Enjoy up to 10% cashback using offers at the point of purchase. At Lloyds Bank, we offer up to 10% cashback on your everyday purchases when you use your Lloyds Bank debit card. We will credit your cashback to your Lloyds Bank debit card. Available to eligible Lloyds Bank personal current account customers. See 10% with Lloyds Bank.

Register today at loydsbank.com

LLOYDS BANK
For the moments that matter

START THE YEAR WITH A
REWARD FOR YOUR LOYALTY

Enjoy
1% off
your personal
loan rate.

6.4% APR Representative

- This offer is available to customers who:
- Have had a personal current account with us for 5 years or more
- Are taking out a loan between £7,500 and £25,000
- Are borrowing for 1 to 5 years.

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CLUB LLOYDS
CURRENT ACCOUNT

JOIN THE CLUB

I want a current account
that gives me more

LLOYDS BANK

NOT ALL LOANS ARE
BENDY
LIKE OUR FLEXIBLE LOAN

6.4% APR Representative
On personal loans £7,500-£25,000

With our Flexible Lending you can:

- Make undervived additional repayments
- Pay off your loan early with no charge
- Enjoy the same flexibility, at other rates, on other loan amounts between £1,000 and £25,000 over 5-7 years

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LLOYDS BANK

BUSINESS BANKING

SUPPORTING UK
BUSINESS

I HAVE BIG
DREAMS
I JUST NEED TO MAKE THEM HAPPEN

Lloyds Bank approve 80% of business loans.
At Lloyds Bank we know the importance of supporting business growth so not only are we saying yes to 80% of lending requests but we also provide business mentors to help your business grow.

loydsbank.com/vbc

LLOYDS BANK

WEALTH



BECAUSE BUILDING YOUR BUSINESS
MATTERS

LLOYDS BANK

INTEGRATION OF WEALTH & RETAIL BUSINESS BANKING

Improved propositions and leveraging Retail infrastructure for a lower cost model



RBB



Branch

Telephone

Online and Mobile

Development to propositions

- Increase Local Business Managers from 27 to 217 FTE
- Leverage Bank Managers to build customer relationships

- Multi-brand, multi-skilled colleagues
- Call Routing and case management

- Loans and overdrafts online
- No card reader to access
- Mobile Banking App

Wealth



Target Operating Model

UK Wealth Location Strategy

Private Banking Service Centre

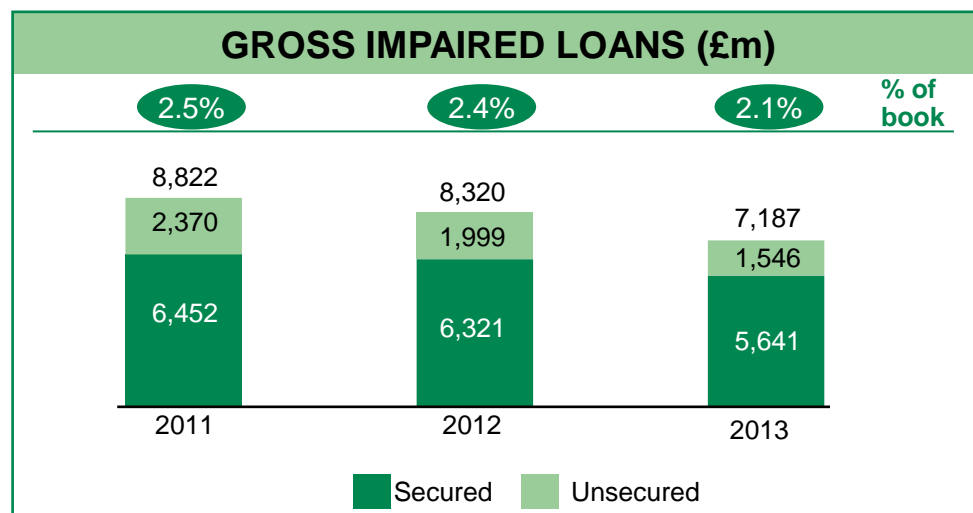
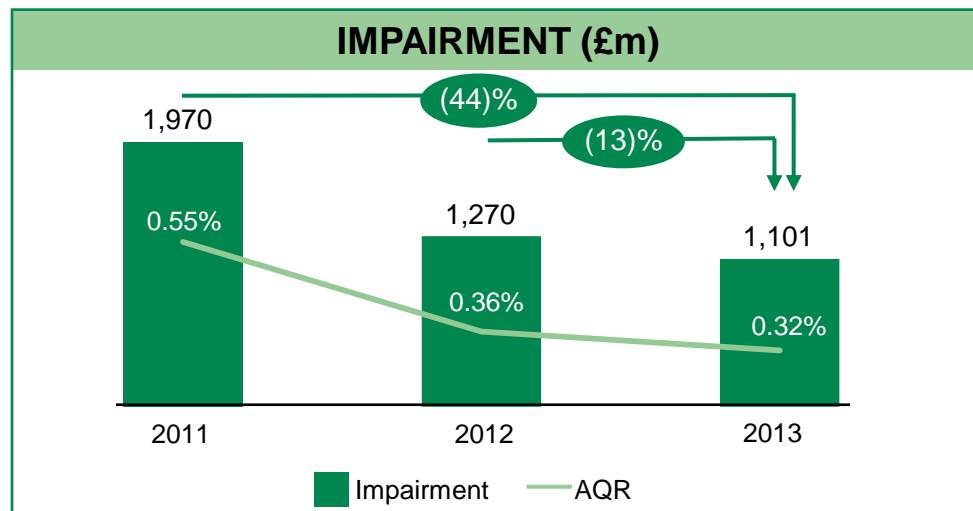
- RM manages portfolio
- Licensed for all products
- Branch based

- Wealth colleagues based in premises with Group partners
- Top 100 branches will have in house adviser

- Leverage existing Group infrastructure
- Improving client experience

FINANCIAL PERFORMANCE

Further improvement in impairment



- Impairment charge down 44% since 2011
- Year on year impairment charge decreased by 13%
- Impairment reduction driven by stable unsecured book and decreasing secured charges largely due to lower impaired loan balances
- Secured impaired loans have fallen for 4 consecutive years
- Impaired loans as a percentage of total advances of 2.1% (Dec 2012: 2.4%; Dec 2011: 2.5%)
- Secured Coverage ratio of 26.1% (Dec 2012: 25.6%; Dec 2011: 25.6%)

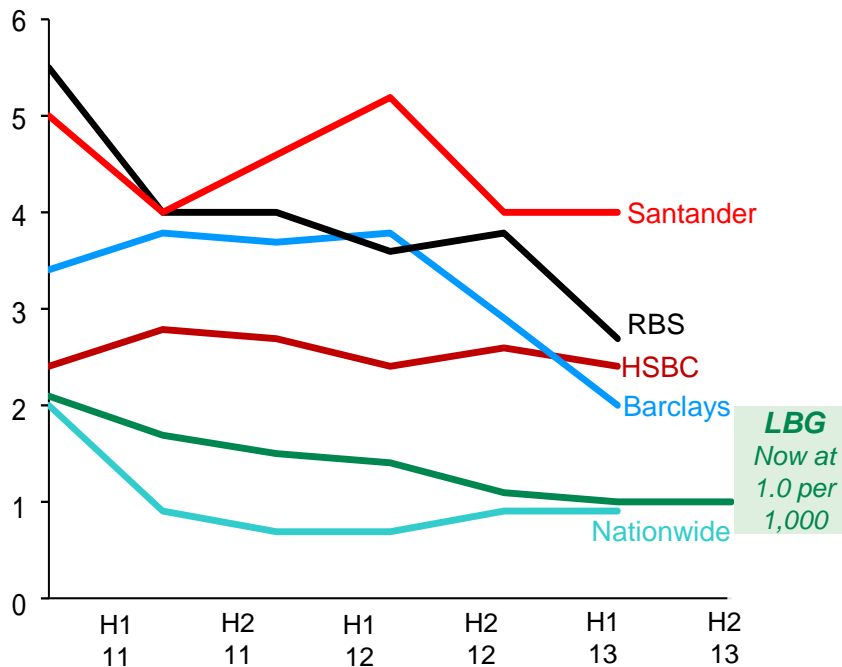
BEST BANK FOR CUSTOMERS

Investment has delivered improved customer satisfaction and lower complaints

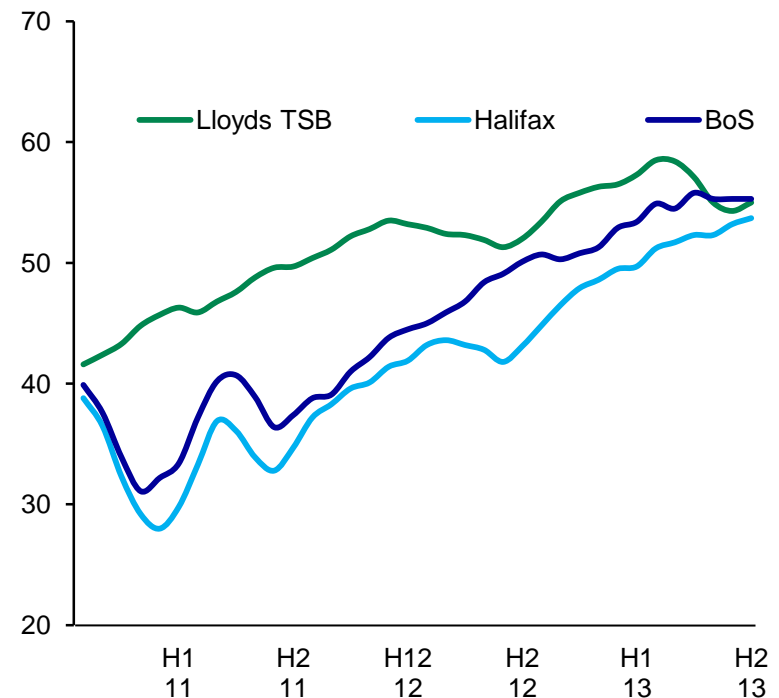
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**FCA BANKING COMPLAINTS
PER 1,000 ACCOUNTS (excluding PPI)**



**CUSTOMER SATISFACTION
NET PROMOTER SCORES**



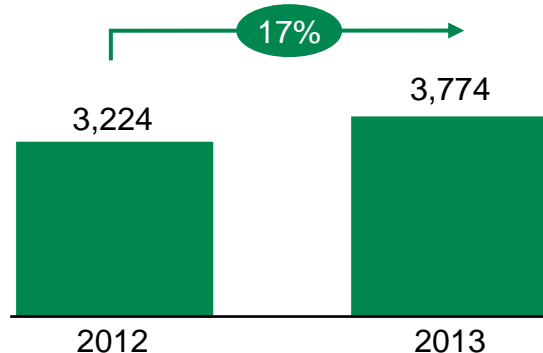
ORIGINAL 2014 TARGET OF 1.0 COMPLAINT PER 1,000 ACCOUNTS ACHIEVED

CORE RETAIL FINANCIAL PERFORMANCE

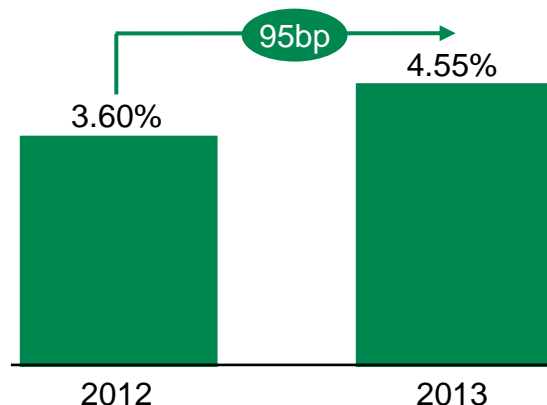
Further increase in core Retail profit and returns in 2013



CORE RETAIL PROFIT (£m)



CORE RETURN ON RISK WEIGHTED ASSETS



- Underlying profit improvement driven by 5% growth in NII and 11% reduction in impairment
- NII growth driven by 15bps margin expansion and return to growth in core loans and advances
- Asset quality further improved in both secured and unsecured

RETAIL SUMMARY

Aligned with Group strategy, strong position with our distinctive assets and capabilities



Strong Customer Relationships

- Over 30 million customers

Multi-brand strategy

- Iconic retail brands on the high street in the UK

Broad Multi-channel Distribution

- Over 10.5m Retail Online Users across Lloyds Banking Group (including TSB) and over 4m mobile users

Customer Focused People

- Customer service scores increasing across all brands

Integrated & Simplified Platform

- Integrated platforms to deliver savings and simplify customer processes



OUR BUSINESS MODEL

Q1 2014 PERFORMANCE

RETAIL BANKING UPDATE

SUMMARY



- **Loan growth in all key customer segments**
- **Full year 2014 net interest margin now expected to increase to around 2.40%⁽¹⁾**
- **Other income will remain challenging**
- **Further benefits from Simplification; guidance for full year costs of £9bn excluding TSB unchanged**
- **Continued risk reduction; full year AQR now expected to reduce to around 45bp**
- **Run-off portfolio to reduce to around £23bn by end of year**
- **Expect to launch TSB IPO in summer, subject to regulatory approval and market conditions**

WELL POSITIONED FOR FURTHER PROGRESS IN 2014

⁽¹⁾ Excluding the effect of TSB disposal.



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- Customers at the heart of our business; launched Helping Britain Prosper plan
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FORWARD LOOKING STATEMENTS AND BASIS OF PRESENTATION

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FORWARD LOOKING STATEMENTS

This announcement contains forward looking statements with respect to the business, strategy and plans of the Lloyds Banking Group and its current goals and expectations relating to its future financial condition and performance. Statements that are not historical facts, including statements about the Group or the Group's management's beliefs and expectations, are forward looking statements. By their nature, forward looking statements involve risk and uncertainty because they relate to future events and circumstances that will or may occur. The Group's actual future business, strategy, plans and/or results may differ materially from those expressed or implied in these forward looking statements as a result of a variety of factors, including, but not limited to, UK domestic and global economic and business conditions; the ability to derive cost savings and other benefits, including as a result of the Group's Simplification programme; the ability to access sufficient funding to meet the Group's liquidity needs; changes to the Group's credit ratings; risks concerning borrower or counterparty credit quality; instability in the global financial markets, including Eurozone instability and the impact of any sovereign credit rating downgrade or other sovereign financial issues; market-related risks including changes in interest rates and exchange rates; changing demographic and market-related trends; changes in customer preferences; changes to laws, regulation, accounting standards or taxation, including as a possible result of the referendum on Scottish independence and also including changes to regulatory capital or liquidity requirements; the policies and actions of governmental or regulatory authorities in the UK and other jurisdictions in which the Group operates; the implementation of the Bank Recovery and Resolution Directive and Banking Reform Act; the ability to attract and retain senior management and other employees; requirements or limitations imposed on the Group as a result of HM Treasury's investment in the Group; the ability to satisfactorily dispose of certain assets or otherwise meet the Group's EC State aid obligations; the extent of any future impairment charges or write-downs caused by depressed asset valuations, market disruptions and illiquid markets; the effects of competition and the actions of competitors, including non-bank financial services and lending companies; exposure to regulatory scrutiny, legal proceedings, regulatory and competition investigations or complaints, and other factors. Please refer to the latest Annual Report on Form 20-F filed with the US Securities and Exchange Commission for a discussion of certain factors together with examples of forward looking statements. The forward looking statements contained in this announcement are made as at the date of this announcement, and the Group undertakes no obligation to update any of its forward looking statements.

BASIS OF PRESENTATION

The results of the Group and its business are presented in this presentation on a underlying basis. Please refer to the Basis of Presentation in the Q1 2014 Interim Management Statement which sets out the principles adopted in the preparation of the underlying basis of reporting.